

## MAKING HUMAN CAPITAL A SOURCE OF COMPETITIVE ADVANTAGE FOR EDUCATIONAL INSTITUTIONS

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### ABSTRACT

*Traditionally, human capital has been considered as a necessary expense, rather than a source that contributes value to the organization. The value is associated with capital such as equipment, technology, and infrastructure. In recent years, numerous studies have demonstrated that spending in human capital development can be significantly valuable. Managerial decisions pertaining to hiring, reward and recognition, training and development, and evaluating employees' performance, etc are found to directly affect employees' motivation and improved performance, helping the firm to attain a competitive edge. In today's competitive business world, the knowledge, talents and skills that people in a firm possess have become increasingly important elements of intangible assets and potentially powerful source of competitive advantage. The purpose of this paper is to examine how an educational firm can invest in its human capital in order to make it a source of competitive advantage.*

**KEYWORDS:** Human Capital, Selective Hiring, Training and Development, Reward and Recognition & Performance-Based Pay

Original Article

**Received:** Feb 15, 2018; **Accepted:** Mar 08, 2018; **Published:** Mar 20, 2018; **Paper Id.:** IJHRMRAPR20183

### INTRODUCTION

Until the 1950s, economists considered only four factors of production, namely land, labor, capital, and management. However, in the early 1960s, researchers in the field of economic growth faced difficulty to explain the growth of the US economy in terms of these four traditional factors of production. The residual thus identified were attributed to human capital (Nafukho, Hairston, & Brooks, 2004). Human capital, which represents knowledge, skills, talents, capabilities and competencies possessed by individuals, is absolutely comparable to other resources involved in the production of goods and services (Nafukho, et al, 2004), and are indisputably the most powerful and influential assets as compared to other resources (Fitz-Enz, 2009). In today's rigorously competitive business contexts, it is very important for business organizations to measure the value of human capital, and to make it a potentially powerful source of competitive advantage.

Raising competitiveness, combined with the frequently occurring technological changes in today's global age, increases the importance of human capital, both in manufacturing and service sector firms. Human capital is perceived to be the most long-term, enduring form of intellectual capital that some literature argued that the only significant differentiator between organizations is their unique capability to create value through human capital (Foster, 2014). Unlike other resources, human capital is one that helps the management gain control over the organisation. This assumption has helped managers of successful companies to base their competitive advantage in the past. The human

capital of the employees in a firm has highest financial value, and it can be further developed and improved by continuing education, learning and development programs, which ultimately take a central role in the survival and growth of the organization.

When it comes to service sector, human capital plays more important role. Service sector firms, including educational institutions need highly skilled, experienced and motivated employees in order to gain competitive advantage. Employees in educational institutions such as schools, colleges and universities comprising mainly of teachers and professors need sufficient knowledge, right talents, and appropriate skills and competencies since they are in direct contact with clients (Skapska & Samul, 2015). In recent years, the field of education has become increasingly competitive as schools, colleges and universities face fierce competition from their counterparts in the market, which in turn forces them to change the way they operate in their business arena. They need valuable, rare, inimitable and well organized business strategies that would really help them gain sustainable competitive advantage. The purpose of this review article is to discuss the importance of investing in human capital, and to present human capital as a source of competitive advantages for educational firms.

## **LITERATURE REVIEW**

### **Theory of Human Capital**

Economists used the term ‘standard human capital’ to mean that human capital is the resources in people in forms of skills, knowledge, and capabilities that significantly influence their productive capacity and that determines individual’s employability (Tomer, 2016). As Daft and Marcic (2012) defined, human capital is the economic value of knowledge, experience, skills, and capabilities that are embedded in employees. Literatures including Marcus, Ippolito and Zhang (1998), Mankiw (2011) and Wintersberger (2017) also used similar concept and meaning to explain the importance of focusing on human capital. Fitz-Enz (2009) added behavioral elements such as motivation, engagement, and commitment of people in an organization as part of human capital, along with their , skills, knowledge, experiences and talents. Based on these views of human capital, it is important for HR executives not only to manage and control people in an organization in terms of physical availability, recruitment, selection, training ,and so on, but also to enhance their intellectual abilities and innate qualities that are helpful for the firm to achieve competitive advantage.

People with right talents, skills and experiences are able to understand their individual and team role, as well as their responsibilities in connection with the vision, mission and objectives of the firm they are working in. As compared to other resources, human capital can be easily customized, as people behave and act according to organizational contexts. This is the reason why academicians argued that human capital is the most valued, powerful and beneficial asset for business firms (Murale & Ashrafali, 2010). Moreover, the knowledge, skills and experiences are transferred and exchanged from person to person, if there is a favorable organizational climate in the firm.

Human capital theory, propounded by Theodore Schultz in 1961, states that people invests in their human capital for maximizing the present value of their lifetime earnings. They spend money, time and efforts in their own education, training, and continuous learning in the expectation that they in turn will get a higher return in the future, in terms of income, living standard, social status and so on. The theory also postulated that the investment in an individual’s education, training etc could also influence his potential productivity and economic system (Mahmood, 2017). Human capital theory has been connected with the concept of Resource Based View of the firm, developed by J.B Barney in 1991 (Baron &

Armstrong, 2007). Because, human capital can meet the requirements of the Resource-Based View (RBV) of the firm since people's education, work experience, employment tenure, general cognitive ability, personality traits etc are some of the internal resources of a firm that are valuable, rare, and inimitable causing the firm to achieve sustainable competitive advantage (Wilkinson and Johnstone (2016). The theory of RBV proposes that competitive advantage of a firm can be attained when it has a human resource pool that cannot be imitated by its competitors. It is people's talents, skills, knowledge and capabilities that create the right human resource pool for a firm. Inkson (2008) stressed that the fundamental principle of RBV is that the organization must look inside the firm to create and develop sources of competitive advantages, as it is of no considerable costs and risks. So, theoretically, it is rather more strategic to make and develop the best human capital worth that is highly valuable, rare and inimitable, in order to ultimately contribute to the company's competitive advantages.

### **HR Strategies to Invest in Human Capital**

Spending in human capital cannot be treated as expenditure, but is an investment that yields better returns. Amounts spent in selectively recruiting the employees, educating them, providing them with training and developing, giving them rewards and recognition, offering them performance-based pay, and employee retention will never be worthless. If these HR practices are effectively carried out, the result will be far better, in the form of higher productivity and employability of employees, and improved organizational performance, leading to favorable organizational outcomes such as higher profitability, stronger competitive position, long-term sustainability, market leadership and so on.

Pfeffer (1998) considered selective hiring or selective recruiting as one of the seven HR practices of successful organizations. Selective hiring is proactive in nature, as getting the best hands on the first is better than converting the existing workforce to the 'right fit' hands. Selective hiring involves carefully matching between job applicant and job requirements, and conscious attempts to attract and select the best talents from the job market, as well as offering higher compensation to attract as well as retain the talent in the organization (Nasrudin, Ahmad & Ling, 2015). Reward and recognition, though they do not involve higher spending in most cases, are also methods of investing in human capital. An extensive review of literatures indicates that employee compensation includes all forms of pay and rewards received by employees for performing their jobs. Employee rewards and recognition, organizational support, work environment and flexible work norms to accommodate personal needs are some of the most important elements of non-financial compensation (Kumar, 2010).

Pay is an important element affecting employee motivation. Performance-based pay involves paying an additional amount of salary or allowance to those employees who are found performing better than others. It also involves a merit increase, salary increase on performance ratio, profit sharing, individual incentive, commission, gain-sharing etc (Cooke & Kim, 2017). The most important method of investing in human capital is educating them, through training and development programs. It provides them with development, in the acquisition of knowledge, behavior and skills to help them advance their competence to meet changes in job requirements (Noe, Hollenbeck and Gerhart, 2003). Business firms that invest extensively on innovative training and development programs are found to become successful since they are able to achieve high performance working, improved the overall productivity of employees and ultimately to achieve sustainable competitive advantage (Noe, 2002).

## DISCUSSIONS AND FINDINGS

### Making Human Capital a Source of Competitive Advantage for Educational Firms

How to make human capital a source of competitive advantage? The answer to this underlying question is that investing in human capital is the best way to make human capital a source of competitive advantage. Human capital becomes a source of competitive advantage, when employees of a firm possess skills, talents, knowledge, experience and capabilities, with which they work with higher commitment, engagement, motivation and sincerity, for achieving organization's goals and objectives. If the human capital of an organization is highly valued, rare, inimitable, and well organized, the organization is more likely to attain a sustainable competitive advantage (Baron & Armstrong, 2007). Selective hiring, training and development, reward and recognition, and performance based pay are useful strategies for educational firms to invest in human capital to ensure that it gives them greater returns back.

When it comes to the education sector in a country, schools, colleges and universities are viewed as engines of local, regional, and national economic development. Educational institutions are the producers of citizens who are supposed to possess critical skills and knowledge required for economic and social development (Tare, 2015). People without these critical skills and knowledge remain underutilized, thus leading to significant breakdowns of machines, technology, and infrastructures. National economies and national wealth are less concentrated in factories, land, tools and machinery, but, knowledge, skills, talents, and employability of people are more critical to the world as well as national economies. Hence, educational institutions are responsible to empower their teachers with sufficient skills, knowledge, and talents, and are required investing extensively in the human capital, through selective hiring, training, and development, reward, and recognition, and performance based pay.

### Selective Hiring

Normally, teachers who completed professional courses of teachers' training like TTC or B.Ed are preferred for hiring in educational forums. Qualification is an important criterion that most educational firms look for while hiring teachers. So, as Pfeffer (1998) emphasized, recruiting the 'right' people in the first place is a proactive approach. For this, the firm needs to have a large applicant pool, as well as the firm must be very clear about what are the most critical skills, abilities and knowledge needed for its new teachers to be recruited. Teachers who are selectively hired in schools and colleges will believe that they are highly valued, and as such they will be highly committed. It also ensures a better individual-organization fit as there is a careful match between job applicants and organization's values, thus making new teachers believe in organizational goals, visions and missions and thus ultimately leading to increased commitment and employee engagement (Dessler, 1999). Teachers at the time of recruiting should be interviewed in detail so as to check whether they are educated and professionally qualified, proficient in the required languages, positive in attitude, technically skilled, knowledgeable in child psychology, able to manage class rooms, and dynamic in using different teaching methods etc. For this, the HR manager is suggested to involve written test, demo-class, language test etc in the interview.

### Training and Development

Today's student community is increasingly vibrant, dynamic and mostly tech-savvy, as they are constantly influenced by modern technology, social media and changes around their life and social systems. Hence, teachers who have to handle them in classrooms must be always updated with necessary skills, knowledge and talents. By providing teachers with effective training and development programs, educational firms will be able to equip them with necessary,

skills, knowledge and talents to help them successfully perform their jobs (Byars and Rue, 2008). The economic, social, technological and political changes can make teachers' skills learned yesterday obsolete for today. Moreover, the planned changes would also make it necessary for educational firms to update the skills and abilities of their workforce. Employment related issues such as poor performance, lower productivity etc can be overcome only through successful training and development programs.

From a management perspective, an effective training is a set of processes designed and developed to transform organizational inputs into outputs that meet organizational needs as well as contribute to the ultimate values being offered to the customers. Blanchard and Thacker (2007) strongly opposed viewing 'training' as just a program of training, rather they suggested that training is a set of integrated processes in which employee needs are identified, recognized and responded to in systematic, logical and strategic manners. By considering training in such a broad perspective, the educational firms will be able to improve, and moreover, the management will be keen on constantly investing in training in order to ensure competitive strengths and sustainability (Blanchard & Thacker, 2007). Making teachers updated, energetic and talented is no doubt one of the best ways to help an educational institution become competitive in its market landscape.

### **Reward and Recognition**

Reward and recognition are the most powerful tool out of all the available HR tools for motivating employees (Jackson and Hitt, 2003). When it comes to educational institutions, employees need to get appreciated for their efforts so that they will become involved in knowledge sharing and skills development. The Reward and recognition system on an educational firm should be designed and developed in a way that it creates a work environment where teachers constantly feel appreciated for their efforts, contribution and improved performance. It should also create a feeling of employment security, thus leading to job satisfaction and employee retention (Shermon, 2004).

Everyone in the workplace likes to get noticed. Teachers also like to get appreciated for their efforts and outcomes. According to most motivational theories, including Abraham Maslow's Need Hierarchy theory, Herzberg's Two Factors Theory, Alderfer's ERG theory and Stacy Adam's Equity theory, appreciation, and recognitions are important factors that motivate employees (Schermerhorn, Hunt & Osborn, 2008). Armstrong (2002) postulated that employees tend to be motivated when they receive rewards in consideration or exchange for accomplishing the desired and assigned tasks, provided that these rewards are valued. Individuals in workplaces are motivated by self-generated factors such as pride, self-actualization, ownership, desire to grow, and dignity (Armstrong, 2002).

### **Performance Based Pay**

Battaglion (2014) stated that performance-based pay is theoretically grounded in two theories of organization, namely expectancy theory and reinforcement theory. According to the expectancy theory, teachers in an educational firm should exert additional efforts in exchange for monetary rewards. Teachers are likely to work better when they receive an additional pay for their additional effort. Employees thus perceive that increased effort will always be valued and considered. According to reinforcement theory, the incidence of a desired behavior is subject to its consequences, and hence, any additional effort leads to its consequence of another additional reward in payment (Battaglio, 2014). In order to make high-performing teachers stay longer at the firm, and to avoid their turnover, they must be paid higher for their improved performance. It can be designed in a way that teachers who produce better academic results, or create very

positive academic standards, or maintain far positive relationship with children and their parents should be given an additional salary increment when yearly or half yearly salary increment is fixed.

Many authors ,including Strong, Gareis, and Little (2006), Lohman (2011) and Rice and Malen (2017) focused on the importance of performance-based pay for educational institutions. All these works stressed that performance based pay models are grounded in the notion that the mission, vision, goals and major emphasizes across the progress of the educational firm should be focused on improving student achievement, and therefore, teacher's compensation must be linked to this performance metrics. Teacher's improved performance is normally reflected in student's as well as parent's satisfaction, students academic and co-scholastic achievements, overall reputation and goodwill gained by the firm etc. So, additional increment of salary or allowance should be linked to these performance criteria.

## CONCLUSIONS

This article presented a qualitative study to examine the importance of human capital investment for educational institutions in terms of helping them achieve competitive advantage. Human capital is undeniably the most powerful, influential and highly valued asset that significantly affects the employability and productive capacity of the individual members of a firm. In today's extremely competitive and dynamic business environment, both manufacturing and service sector firms are looking for strategies that would really help them stay stronger in the market, achieve sustainable competitive advantage, and maintain long term profitability. This article attempted to discuss some of the most useful HR strategies to invest in human capital in order to make human capital a source of competitive advantage.

Being the engine of national economic development, educational institutions including schools, colleges and universities are responsible to place more knowledgeable, skilled, talented and self-motivated teachers who can transform their students bettercitizensof tomorrow. So, educational firms should empower teachers with sufficient skills, knowledge and talents. This article recommends educational institutions to adopt selective hiring for attracting and selecting the best talents, training and development programs for improving skills, knowledge and talents of teachers, reward and recognition for motivating them, and performance-based pay for retaining the best talented teachers. Selective hearing is a proactive approach, and hence, educational firms will be able to find the best and right fit candidates at the first. Existing as well as newly appointed teachers must be provided with sufficient numbers of training and developments to ensure that their talents are updated, and that their skills do not become obsolete. Both reward and recognition as well as performance-based pay would motivate teachers to become high-performers, and to stay longer with the firm, since they would feel respected and honored.

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